Fund managers earned billions in 2016 even as hedge funds underperformed

Shelley Connor
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A report published this week in Institutional Investors' *Alpha Magazine* reveals that hedge funds in 2016 hemorrhaged investors, who took with them an estimated $70 billion from the $3 trillion hedge fund industry. Despite this multi-billion dollar exit, hedge fund managers continued to enjoy extraordinary compensation; the 25 top earning hedge fund managers pocketed a combined total of $11 billion last year.

James Simons, a former National Security Agency (NSA) code cracker and the head of Renaissance Technologies, made about $1.6 billion. Bridgewater Associates founder Ray Dalio brought in $1.4 billion. Robert Mercer, Renaissance Technologies' co-chief executive and one of the biggest contributors to Donald Trump's presidential campaign, earned $120 million.

Hedge funds have consistently yielded disappointing returns over the past eight years, even as the stock market as a whole has thrived. Some managers only brought in single-digit returns for their investors last year; some lost billions of dollars. Many investors shut down and offloaded their funds at the fastest rate since the 2008 financial crisis.

Hedge fund managers' compensation, however, has continued to soar over the past decade. Even though the top 25 hedge fund managers earned less in 2016 than they did in 2015 (when they collectively earned $13 billion), the total is still more than double what the top earners in 2000 made, the first year that Institutional Investors published its list.

The lowest ranking manager among top-50 richest managers made more money in 2016 than any bank executive, including the executives of J.P. Morgan and Goldman Sachs.

Many of the hedge fund managers on Alpha's top 25 and top 50 lists actually posted subpar returns. Among these is Kenneth C. Griffin, a major Republican donor, who netted his investors returns of just 5 percent in 2016. He earned $600 million. Daniel Loeb of Third Point finished the year with an income of $260 million, even though he made his investors just 6 percent.

Hedge fund managers are able to make such exorbitant paychecks, regardless of whether their investors make money or lose it, because of what is known as the 2-and-20 fee system. Hedge funds generally charge their investors 2 percent of their investments annually, irrespective of the investments' performance. In this way, whether their investors lose, break even, or make a profit, managers have an enormous guaranteed income. When an investment makes a profit, the hedge fund manager typically commands 20 percent of the earnings.

John Paulson, the hedge fund manager who reaped a windfall by betting on the collapse of the housing market in 2008, called 2016 "the most challenging year." Paulson has earned $15.45 billion since 2000, yet he was bumped off of Institutional Investors' top hedge fund managers' list because of double digit losses last year. Other hedge fund managers, citing "industry headwinds," closed their doors last year. Wild swings on the stock market, such as occurred after Donald Trump's election and Britain's vote to exit the European Union, caused other wary hedge fund managers to withdraw from the business.

Many of the managers who persisted in 2016, including some of those on Institutional Investors' list, were able to continue bringing home their outrageous earnings by negotiating fees and percentages with nervous investors. Despite this, they earn significantly more in a year than the average American ever will, even after a lifetime of work.

The hedge funds that managed to make a profit last year are worth noting. Renaissance Technologies,

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worth about $42 billion, employs cryptographers, physicists, and even astronomers to analyze massive amounts of data that the company uses to inform investment choices. Founded by the former military and NSA codebreaker Simons, the firm jealously guards the precise details of its investment analysis and strategy. The company was able to maintain profits for its investors, in both domestic and foreign equities, even as other hedge funds teetered in the wake of Brexit.

Hedge funds have garnered distaste, wariness, and outrage amongst the public, which politicians have leveraged to their advantage. Scott M. Stringer, the New York City comptroller, accused hedge fund managers of collecting fees "without adding value."

New York City pension funds were, in many cases, withdrawn from hedge funds last year, although Stringer added about $170 million in police and firefighter pension funds to hedge funds. The comptroller's office requested that the remaining hedge fund managers lower their cut of the investments and waive their management fees.

President Trump played upon the public's outrage at hedge fund managers in his presidential campaign. Trump accused hedge fund managers of "getting away with murder" and vowed to close the loopholes that allow them to pay lower taxes. His proposed tax plan, however, does nothing of the sort. To the contrary, while it closes the "carried interest" loophole, it lowers the income tax rate on profits earned by investment managers.

The contradictions rife in any serious look at hedge funds--underperforming investments coupled with outrageously high earnings for managers--highlight the seething ferment of the global capitalist crisis.

Workers worldwide face greater and greater uncertainty about wages, food security, and health care access. The stock market remains highly volatile, subject to upheavals in the face of geopolitical tensions. Yet hedge fund managers continue to "earn" exorbitant fees, betting on risky ventures with workers' retirement accounts.

The disgruntlement among investors concerning hedge funds further reveals the tensions amongst the numerous parasitic layers of the bourgeoisie and the upper middle class, who fight, not for the responsible spending of workers' 401ks and pensions, but for their own cut of profits in the face of diminishing returns.

Stringer rightly accuses the top-earning managers of earning massive profit without adding value, but he fails to recognize that the only real value rests in what workers produce--and when workers have been reduced to poverty by declining wages and by unemployment, the ever rising value of the stock market is illusory.

Both the lackluster performance of hedge funds and the obscene wealth of their managers underscore the illusory nature of the stock market's performance. They also signify the need, greater, perhaps, than at any time in history, for workers to unite internationally to wrest the value produced by their labor away from the Wall Street gamblers and the politicians who cater to them.

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